

31 May 2022

Mr. Ken Siong
Program and Senior Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY, 10017
USA

By email: KenSiong@ethicsboard.org

Dear Ken,

Exposure Draft (ED): Proposed Technology-related Revisions to the Code

CPA Australia represents the diverse interests of more than 170,000 members working in 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

This submission is informed by CPA Australia members and experts who participate in the organisation's [Ethics and Professional Standards Centre of Excellence \(CoE\)](#) and [Digital Transformation CoE](#). These CoEs are management advisory groups that provide members' and experts' views on CPA Australia's policy positions and advocacy activities.

We have concerns with the proposed revisions. These concerns are detailed in our responses to the questions posed in the ED (refer to **Attachment 1**). Additionally, we highlight several other matters (refer to **Attachment 2**) that the IESBA should consider in progressing these, and future, proposed revisions.

Our key concerns relate to the challenges associated with implementing a Code of Ethics for Professional Accountants (the "Code") that is becoming increasingly less accessible to, and hence increasingly less meaningful to, many professional accountants. This situation is being created by:

- The rapid increase in the length of the Code over the last five to six years, in particular
- The increasing number of requirements being added to the Code, which aim to "clarify" or expand on the fundamental principles. However, rather than clarifying the application of the principles, these additional requirements are adding complexity and creating confusion for many professional accountants and are undermining what is meant to be the principles-based nature of the Code. Arguably, a professional accountant exercising professional judgement will arrive at the "right conclusion" applying the fundamental principles. They don't need additional requirements to make that decision, although at times, additional guidance would be helpful. Therefore, the IESBA might consider the use of guidance materials and other non-authoritative materials, rather than revisions to the Code itself
- Adding requirements that appear to conflict with the conceptual framework outlined in the Code. For example, new requirements are being added that conflict with, or appear to "override", the application of Sections 120.2 and R120.3 of the Code

- An unwavering, and arguably inappropriate, focus by the IESBA on Parts 4A and 4B of the Code. The vast majority of professional accountants across the globe do not provide audit and assurance services. For those professional accountants the ongoing focus by the IESBA on auditor independence is creating conflicts and challenges within the Code. That is, when the IESBA takes an “auditor independence first” approach to the revisions it makes to the Code, this leads to “conforming” revisions in other parts of the Code. This makes the Code less meaningful for those professional accountants who do not provide audit and assurance services.

As noted in our 2020 [submission](#) on the *Exposure Draft: Proposed Revisions to the Non-Assurance Services (NAS) Provisions of the Code*, “CPA Australia questions whether some of the prohibitions proposed, being rules based, are appropriate for inclusion in the Code. Arguably, such prohibitions are a matter for regulators in their respective jurisdictions to address.”

This current ED again highlights that the IESBA is potentially damaging the credibility and global adoption of the Code by undermining its foundations, by focusing extensively on auditor independence issues, and by increasingly introducing a rules-based approach to its standard setting.

CPA Australia is of the view that with the changed governance arrangements for IESBA currently being implemented, it is an appropriate time for there to be an open and transparent debate about the role and purpose of the IESBA and the international Code of Ethics for Professional Accountants. Without clarity the potential for growing global fragmentation in this space is very real.

If you have any questions about this submission, please contact me at gary.pflugrath@cpaaustralia.com.au.

Yours faithfully



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Encl.

Request for specific comments

Technology-related considerations when applying the Conceptual Framework

1. Do you support the proposals which set out the thought process to be undertaken when considering whether the use of technology by a PA might create a threat to compliance with the fundamental principles in proposed paragraphs 200.6 A2 and 300.6 A2? Are there other considerations that should be included?

While CPA Australia generally supports the proposals setting out the thought process in proposed paragraphs 200.6 A2 and 300.6 A2, to be undertaken when considering whether the use of technology by a professional accountant might create a threat to compliance with the fundamental principles, the IESBA may wish to consider the following points when finalising the wording for these paragraphs:

- Is it appropriate that the professional accountant's sole concern is with the "output" from technology, rather than more generally with the technology itself, and all key facets of it? For example, in the Explanatory Memorandum, at paragraph 19, it is noted that:

The IESBA noted that inputs to technology are not only data, but also other information such as decisions made by individuals relating to the operation of the technology (see last bullet of proposed paragraphs 220.7 A2 and 320.10 A2).

Therefore, while it is recognised that the professional accountant is essentially using the output of the technology for decision making, they "rely" on more than just the output. The professional accountant also relies on the inputs to and processes associated with the technology.

- It is not clear what is meant by the proposition that the professional accountant needs to consider whether they have the competence to "understand" the technology. What is the level of understanding that is required or expected? Is this creating a too "high a bar" for the professional accountant? We are uncertain what is meant by "whether the technology incorporates expertise or judgements of the accountant or the employing organisation". Is the IESBA referring to the risk of technology bias or the risk of the accountant/firm manipulating the technology?

Arguably, the role of the professional accountant is not to understand the technology that they are using per se, but rather to assess the risks and governance processes associated with the use of that technology to ensure that the use of, and reliance on, the technology is appropriate. This is especially critical in the current environment, where the use of technology has led to an increase in offshoring and outsourcing arrangements. Moreover, how are aspects of programming and data risk taken into account?

- Should the "maturity of the technology", or its widespread general acceptance and use, also be a consideration for professional accountants in assessing potential threats to compliance with fundamental principles. That is, for example, some of the considerations that are listed in subsequent proposed paragraphs, such as 220.7 A2 and 320.10 A2, which are also relevant, include: "whether the technology is established and effective for the purpose intended" and "the reputation of the developer of the technology".

Determining whether the reliance on, or use of, the output of technology is reasonable or appropriate for the intended purpose

2. Do you support the proposed revisions, including the proposed factors to be considered, in relation to determining whether to rely on, or use, the output of technology in proposed paragraphs R220.7, 220.7 A2, R320.10 and 320.10 A2? Are there other factors that should be considered?

Refer to response to Question 1 above.

Also, the IESBA might re-consider the wording of paragraph 220.7 A3, which as written, is more akin to a third party considering what a professional accountant might do, rather than what a professional accountant might need to consider and do. Consideration might be given to wording along the lines of:

220.7 A3 Another consideration is whether the professional accountant ~~is in a~~ position within the employing organization ~~impacts the accountant's ability~~ to obtain information in relation to the factors required to determine whether reliance on the work of others or on the output of technology is reasonable.

Consideration of "Complex circumstances" when applying the Conceptual Framework

3. Do you support the proposed application material relating to complex circumstances in proposed paragraphs 120.13 A1 to A3?

Is IESBA saying that complexity arises due to the use of technology?

While it may not be the intention of the IESBA, proposing to include wording on "Complex Circumstances" when introducing revisions relating to the impacts of technology may be interpreted by many as an acknowledgement by IESBA that technology also means complexity. Of course, many would argue that the use of technology is, in fact, a means by which to reduce complexity, enhance efficiency and streamline processes.

Some members noted that the IESBA seems to be taking a quite negative view of the ethics and overall impacts of technology on the work of the professional accountant, rather than recognising the very positive impacts that technology has on the work of the profession.

Therefore, the IESBA might consider whether the introduction of wording about complex circumstances should be done separately from revisions related to technology impacts, or alternatively that the title of the Exposure Draft be updated accordingly. This also applies to the inclusion of the reference to Environmental, Social and Governance issues (refer to comments in **Attachment 2**).

What does "complex" mean?

CPA Australia offers no views on the challenges associated with translating the term "complex" into other languages. However, we do note that numerous definitions of the term "complex" use wording such as "lacking simplicity" or being "difficult to understand". The proposed wording of paragraphs 120.12. A1 to 120.12. A3 does not seem to encapsulate these concepts by referencing only "uncertainty" and "multiple variable and assumptions." IESBA may want to consider whether the notion of difficulty (and simplicity) needs to be captured in these paragraphs.

The wording of Paragraph 120.13 A2

Proposed paragraph 120.13 A2 states:

Complex circumstances arise where the relevant facts and circumstances involve:

(a) *Elements that are uncertain; and*

(b) *Multiple variables and assumptions,*

which may be interconnected or interdependent. Such facts and circumstances might also be rapidly changing.

CPA Australia has two main concerns with this proposed wording:

- The use of the term “*facts and circumstances*” to describe how complex “*circumstances*” arise is not particularly useful for readers who may be struggling to determine what it is that constitutes “*circumstances*”. Should different wording be considered, such as “*activities and information*”?
- Can a fact be “*uncertain*”? Numerous definitions of the word “*fact*” typically refer to wording such as something being known to be true or proven. Arguably, to suggest that a fact has elements that are uncertain is illogical.

The wording of Paragraph 120.13 A3

Proposed paragraph 120.13 A3 has potential shortcomings, as it proposes that a professional accountant needs to manage an “*evolving interaction*” of facts and circumstances.

It is not clear whether the interaction to which this paragraph refers is one that exists between the facts and the circumstances, or between the uncertain elements and the different variables and assumptions?

4. Are you aware of any other considerations, including jurisdiction-specific translation considerations (see paragraph 25 of the explanatory memorandum), that may impact the proposed revisions?

Refer to response to Question 3 above.

CPA Australia is not aware of specific translation considerations.

Professional competence and due care

5. Do you support the proposed revisions to explain the skills that PAs need in the digital age, and to enhance transparency in proposed paragraph 113.1 A1 and the proposed revisions to paragraph R113.3, respectively?

CPA Australia does not support the proposed revisions to explain the skills that professional accountants need in the digital age.

The proposed changes to paragraph 113.1 A1 seem to be at odds with the definitions of professional skills and professional knowledge included in International Education Standard (IES) 3, *Professional Skills*. That is, in IES 3 professional skills are defined as:

Intellectual, interpersonal and communication, personal, and organizational skills that a professional accountant integrates with technical competence and professional values, ethics, and attitudes to demonstrate professional competence.

Professional knowledge is defined as:

Those topics that make up the subject of accountancy as well as other business disciplines that, together, constitute the essential body of knowledge for professional accountants.

Given these definitions, the proposed wording at paragraph 113.1 A1 (b) is unnecessary.

However, if the IESBA believes that it is important to specifically mention interpersonal, communication and organisational skills, it might do so in a way that makes it clear that these skills are a part of professional skills which are noted in paragraph 113.1 A1 (a) and are not an addition to them.

6. Do you agree with the IESBA not to include additional new application material (as illustrated in paragraph 29 of the explanatory memorandum) that would make an explicit reference to standards of professional competence such as the IESs (as implemented through the competency requirements in jurisdictions) in the Code?

While additional application material (as illustrated in paragraph 29 of the explanatory memorandum) is not necessary to make an explicit reference in the Code to standards of professional competence such as the IESs, CPA Australia is of the view that the IESBA should at least ensure that it uses definitions and descriptions that are consistent with, if not the same as, those used in the IESs.

Refer to response to Question 5 above.

Confidentiality and confidential information

7. Do you support:
- (a) the proposed revisions relating to the description of the fundamental principle of confidentiality in paragraphs 114.1 A1 and 114.1 A3; and
 - (b) the proposed Glossary definition of “confidential information?”

CPA Australia supports the proposed revisions relating to the description of the fundamental principle of confidentiality in paragraphs 114.1 A1 and 114.1 A3, as well as the proposed glossary definition of “confidential information”.

8. Do you agree that “privacy” should not be explicitly included as a requirement to be observed by PAs in the proposed definition of “confidential information” in the Glossary because it is addressed by national laws and regulations which PAs are required to comply with under paragraphs R100.7 to 100.7 A1 of the Code (see sub-paragraph 36(c) of the explanatory memorandum)?

CPA Australia agrees with the IESBA’s position in this regard.

Independence (parts 4A and 4B)

9. Do you support the proposed revisions to the International Independence Standards, including:
- (a) The proposed revisions in paragraphs 400.16 A1, 601.5 A2 and A3 relating to “routine or mechanical” services.

While generally supportive of the proposed revisions in paragraphs 400.16 A1, 601.5 A2 and A3 relating to “routine or mechanical” services, CPA Australia suggests that the IESBA considers providing more clarity on the wording in proposed paragraph 601.5 A2, that states that factors to be considered include “how the technology functions”.

To what extent and at what level are professional accountants expected to have an understanding of the manner in which particular technology functions?

- (b) The additional proposed examples to clarify the technology-related arrangements that constitute a close business relationship in paragraph 520.3 A2. See also paragraphs 40 to 42 of the explanatory memorandum.

CPA Australia supports the additional proposed examples to clarify the technology-related arrangements that constitute a close business relationship in paragraph 520.3 A2.

- (c) The proposed revisions to remind PAs providing, selling, reselling or licensing technology to an audit client to apply the NAS provisions in Section 600, including its subsections (see proposed paragraphs 520.7 A1 and 600.6).

CPA Australia questions the need for paragraph 600.6. The provisions and proposed revisions included in sub-Section 606 are arguably sufficient. Moreover, the IESBA might wish to consider the impacts of this overarching statement in the Introduction to Section 600 on small- and medium-sized entities (SMEs) and practices (SMPs).

With respect to paragraph 600.9 A2, it is not clear that the proposed wording in the third dot point concerning the client's level of dependency on a non-assurance service, is an appropriate factor to consider. Arguably, if a client organisation is engaging a professional services firm to provide a non-assurance service, that client is dependent on that service; otherwise, it would merely do the work itself. CPA Australia recommends the deletion of that proposed third dot point.

Furthermore, this is an example of a proposed revision to the Code that does not relate specifically to a technology-related matter, and hence begs the question of whether the title of the Exposure Draft is correctly identifying the content of the proposed revisions.

10. Do you support the proposed revisions to subsection 606, including:

- (a) The prohibition on services in relation to hosting (directly or indirectly) of an audit client's data, and the operation of an audit client's network security, business continuity and disaster recovery function because they result in the assumption of a management responsibility (see proposed paragraph 606.3 A1 and related paragraph 606.3 A2)?

CPA Australia is of the view that the IESBA should consider further clarification and guidance with respect to the examples provided in paragraph 606.3 A1. A blanket prohibition of such services has potentially significant ramifications for SMEs and SMPs, which the IESBA may not have fully considered.

It is not uncommon for a professional accountant or accounting firm to provide services to assist smaller clients in times of business disruption on a short-term basis, for example, during times of natural disaster. Additionally, to indirectly host an audit client's data – whatever indirectly might mean – would not be seen as assuming management responsibility by many, including a reasonable third party.

Moreover, arguably, there are safeguards and other measures available to be able to reduce threats to an acceptable level – e.g., when providing disaster recovery support by having security systems and measures that only permits the client to access data.

- (b) The withdrawal of the presumption in extant subparagraph 606.4 A2(c)18 and the addition of "Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm" as an example of an IT systems service that might create a self-review threat in proposed paragraph 606.4 A3?

While CPA Australia does not dispute the notion that providing IT systems services "might" create a self-review threat, it is very concerned that the IESBA has deemed it appropriate to prohibit certain services to

audit clients that are public interest entities merely because a threat “**might**” be created. Other changes made to the Code in 2021 in this regard, with respect to independence requirements pertaining to the provision of a non-assurance service and the notion that the mere possibility that a threat is created being sufficient for that service to be prohibited, has seriously undermined the fundamental foundations and credibility of the Code.

Moreover, it seems to directly contradict/conflict with the foundational conceptual framework of the Code described in Section 120. We can only assume that in making these changes (and those made in 2021), the IESBA is proposing that professional accountants should ignore paragraphs R120.3 and 120.2. The IESBA might consider whether it needs to revise the wording of these two paragraphs to say that they do not apply to, and are not relevant to, Parts 4A and 4B of the Code.

(c) The other examples of IT systems services that might create a self-review threat in proposed paragraph 606.4 A3?

CPA Australia agrees with the other examples of IT systems services that might create a self-review threat in proposed paragraph 606.4 A3.

11. Do you support the proposed changes to Part 4B of the Code?

Refer to comments made, and concerns expressed, in responses to Questions 9 and 10.

Request for general comments

- *Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.

Refer responses to Questions 9 and 10.

- *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an audit inspection or enforcement perspective from members of the regulatory and audit oversight communities.

No comment.

- *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.

No comment.

- *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comments on potential translation issues respondents may note in reviewing the proposals beyond question 4 in the request for specific comments above.

CPA Australia is not aware of translation issues relating to the current proposed revisions.

Other comments

CPA Australia offers its views on the following important matters:

- **Revisions unrelated to technology (1)**

The first dot point of paragraph 13 of the Explanatory Memorandum notes that:

Clarify, by an explicit statement that "...[Part 4B of the Code] applies to assurance engagements on an entity's non-financial information, for example, environmental, social and governance (ESG) disclosures"

Clearly, this proposed revised wording does not relate to matters of technology, as the title of the ED posits. We note that paragraph 57 of the Explanatory Memorandum aims to explain the reason for including this unrelated wording. It notes (*highlighting added*)

This proposal responds to respondents to the technology survey who called for more guidance in the Code to cover non-financial reporting. As non-financial reporting is an evolving area, the IESBA took a "light touch" approach to this proposal to keep it specific and narrow, allowing for the possibility of refinements in the future.

CPA Australia is concerned that the IESBA is proposing revisions to the Code which relate to a matter that did not form part of a consultation and are unrelated to the topic at hand. The IESBA should reconsider making such ad hoc revisions, without having properly consulted on and considered the broader subject matter.

- **Revisions unrelated to technology (2)**

As noted above, CPA Australia is concerned that the IESBA is proposing revisions to the Code which relate to a matter that did not form part of a consultation and are unrelated to the topic at hand. In the case of paragraph 24 of the Explanatory Memorandum, we note (*highlighting added*):

Focusing on ensuring that the Code remains relevant and fit-for-purpose, the IESBA determined not to restrict the proposed provisions relating to complex circumstances to technology-specific situations. In arriving at this determination, the IESBA was mindful of the plethora of non-technology examples pertaining to complex circumstances provided by survey respondents (e.g., rapidly changing laws and regulations with differing public interest angles from a jurisdictional versus global perspective).

Making ad hoc, unrelated revisions to the Code without having undertaken a considered consultation on the breadth of an important topic will potentially lead to inconsistencies within the Code and a reduction in stakeholders' confidence in the work of the IESBA.

- **Inappropriate focus of proposed revisions**

Paragraph 24 of the Explanatory Memorandum notes (*highlighting added*):

The proposed definition of "IT systems services" is intentionally very broad so that the NAS provisions (including the technology-related proposals) could be applicable to the widest range of IT systems services possible.

CPA Australia has grave concerns with this statement. Over recent years the IESBA has demonstrated an inappropriately high level of focus on auditor independence matters. This has become increasingly damaging to the broader credibility and acceptance of the Code.

It is inappropriate for a definition to be constructed in a way, **solely** so that the IESBA can use that definition to introduce prohibitions relating to auditor independence requirements.

CPA Australia is of the view that the IESBA needs to re-consider the definition of IT systems services and the reasoning behind arriving at its proposed definition.

- **Unexplained purpose of proposed revisions**

Paragraph 55 of the Explanatory Memorandum notes (*highlighting added*):

The IESBA's current thinking is that implementation of accounting or financial information reporting software might create a self-review threat regardless of materiality and the extent of tailoring.

While the IESBA has noted that it has "changed" its thinking, it has not explained why. As outlined in the previous dot point, one must assume that the change was brought about by the IESBA's significant focus on Parts 4A and 4B of the Code, to the potential detriment of the overall, and specific other parts of the, Code.